

SCHOOL AND INSTITUTIONAL TRUST FUND  
BOARD OF TRUSTEES  
350 N STATE ST STE 170  
SALT LAKE CITY, UT  
SEPTEMBER 25, 2015

Minutes

Board Members Attending: Richard Ellis, John Lunt, Duane Madsen (arrived 1:36 pm), Kent Misener, and David Nixon.

Others Attending: Peter Madsen, SITFO; Michael Green, OAG; David Damschen and Allen Rollo, Treasurer's Office. Tim Donaldson, Paula Plant, and Aaron Garrett, USOE; Tracy Miller, Utah PTA.

**1. Call Meeting to Order**

Mr. Ellis called the meeting to order and introduced Mr. Peter Madsen.

**2. Approval of Minutes**

The first item of business was the approval of the minutes from the July 7, 2015 meeting. Mr. Misener made a motion to approve the minutes, Mr. Nixon seconded the motion. The motion to approve the July 7, 2015 minutes was passed unanimously by Board members present.

**3. Elect Vice-Chair**

Mr. Ellis asked the board for nominations for vice chair. Mr. Nixon nominated Mr. Misener to be the vice chair, with Mr. Lunt seconding the nomination. The Board members present voted unanimously to elect Mr. Misener as vice chair.

**4. Budget Review FY 16 & 17**

Mr. Madsen noted that less than \$200,000 was spent in fiscal year (FY) 2015, primarily for personnel services and recruiter expenses. The School and Institutional Trust Fund Office was appropriated \$865,000 for both FY 2016 and FY 2017. Mr. Madsen projects spending approximately \$700,000 and \$800,000 for FY 2016 and FY 2017, respectively. Mr. Nixon indicated that travel and the items that make up professional and technical services are double counted in the total expense figures.

Mr. Misener made a motion to approve a budget request for \$865,000 for FY 2017, Mr. Nixon seconded the motion. Mr. Duane Madsen asked if the total expenses for FY 2016 and FY 2017 include the double counted items. Mr. Nixon indicated the total expenses for FY 2016 and FY 2017 are \$609.7 thousand and \$765 thousand, respectively. The motion to approve the budget request for FY 2017 passed unanimously.

**5. Operational Review**

Mr. Madsen noted that the office will be furnished in three phases, with the initial delivery of desks taking place on October 9. A conference table and chairs have been ordered and other furniture will be ordered as needed. The IT infrastructure is nearly complete and will be supported by the State's Department of Technology Services. The development of a logo and website will take place a later time, as soon as higher priority items have been addressed and additional staff has been hired.

Mr. Madsen is working with the Office of the Attorney General to establish general office policies. Mr. Madsen will work with the Board on an investment policy statement and other investment related policies, such as soft dollar policy.

Mr. Madsen is proposing using a consultant to hire a custodian. The consultant should be able to negotiate better pricing and have other information to make the search more efficient. The use of a custodian will enable the Fund to utilize separately managed accounts and the use of risk management software available through the custodian.

The consultant search will be structured to allow for an annual retainer or for individual consulting services to be provided separately. The consultant services included in the search include asset allocation study, manager searches, performance reporting and custodian search. The benefits of the search structure is the transparency in pricing and it allows the option of hiring more than one consultant, with different strengths, at a similar cost. Mr. Nixon commented that the use of a consultant on a retainer basis would save some upfront administrative effort versus using multiple consultants. Mr. Madsen agreed, but felt some consultants may be excluded from the search if the search was purely retainer based. The consultant search will be done through a RFP process, but as an investment function, does not require the involvement of State Purchasing.

Mr. Madsen outlined the staffing plan for the office and noted the budget supported two staff positions. Mr. Madsen would like to first hire an administrative analyst by December to handle basic office, accounting, and other tasks. The second position is a senior investment analyst position which he would like to fill by next spring. Both positions will be exempt from the career service system and be at the will of the Director. The Board discussed the salary range and broadened the ranges for both positions from \$45 to \$55 thousand to \$35 to \$65 thousand for the administrative analyst position and from \$95 to \$110 thousand to \$85 to \$125 thousand for the senior investment analyst position. Mr. Nixon made a motion to approve the administrative analyst with a salary range of \$35 to \$65 thousand and a senior investment analyst with a salary range of \$85 to \$125 thousand, with both positions exempt from the career service system. Mr. Lunt seconded the motion. The motion passed unanimously.

## **6. Investment Review**

Mr. Madsen noted that there may be an opportunity to increase the yield on the portfolio, while increasing portfolio diversification. Mr. Madsen cited convertible preferred stock, emerging market debt and equity, and a shift in the core real estate portfolio to the participating mortgage fund as examples of opportunities to increase the yield on the portfolio. Mr. Misener expressed the need for a framework before making decisions regarding changes to the portfolio. Mr. Donaldson questioned if the Office was constrained by the existing investment policy statement. Mr. Nixon noted that the investment policy statement has not been adopted by the Board. The Board will consider the adopting the current investment policy statement that the office has been operating under at the next meeting.

## **7. Distribution Policy Discussion**

Mr. Madsen noted that growth in school enrollment and inflation over the last twenty years has averaged 4%, while the current portfolio generates a 2% yield to the beneficiaries. Mr. Madsen pointed out that the distribution policy of interest and dividends only, potentially short changes current beneficiaries. Mr. Ellis questioned how to account for the fact the contributions from SITLA will diminish over time in addressing intergenerational equity. Mr. Madsen emphasized the fact that the portfolio should generate a return of CPI plus 4%, which will allow the portfolio to maintain its purchasing power, while growing as additional contributions from SITLA are deposited. Mr. Duane Madsen asked for a comparison of the value of the land portfolio versus the investment portfolio. Mr.

Donaldson estimated that the land portfolio was worth \$1.3 billion based upon \$100 million annual cash flow in perpetuity discounted at 7 to 8%.

The process for changing the distribution policy will require changes to the State Constitution, state statute, and possibly the Enabling Act. The Legislature is contemplating a law suit over the issue of the Federal land management policy and the desire for the State to assume land management responsibilities, which affects the decision to pursue changes to the Enabling Act. Mr. Donaldson indicated that the current strategy only includes amending the State Constitution and enacting state statute to reflect the policy the Board adopts. The 2016 general election is the earliest a change in the State Constitution could be voted on.

#### **8. Board Training**

The required Boards and Commissions training was presented by Mr. Green from the Office of the Attorney General. The Boards and Commission training covered the Open and Public Meetings Act, Government Records Access and Management Act (GRAMA), Public Employees Ethics Act, and other required items.

#### **9. Other Item for Discussion**

Mr. Madsen will email Board members to schedule the next meeting.

There were no other items of business, so Mr. Misener made a motion to adjourn, Mr. Lunt seconded the motion. The board voted unanimously to adjourn the meeting.